

AR27

Polysar Limited
1984 Annual Report



Polysar in the global environment

Polysar Limited, a Canadian international company with headquarters in Sarnia, Canada, is the world's largest producer of synthetic rubber and rubber latex. Polysar also produces other petrochemical products such as styrene monomer, polystyrene resins, custom-compounded rubbers, and formed plastic products. Polysar's products are sold in more than 90 countries.

With corporate headquarters in Sarnia, Canada, the Polysar Group has 18 plants in six countries—Canada, the United States, Belgium, France, The Netherlands and West Germany. More than 6,000 employees in 15 countries throughout the world are involved in the manufacture, sales, technical support and research and development which allow the Company to compete successfully in the international petrochemical industry.

Polysar's output is used mostly by other manufacturers, who process the products further into finished industrial and consumer items, such as automobile tires and inner tubes, coated paper, plastic packaging, roofing membranes, adhesives, foam rubber, carpet backings and hundreds of other applications.

All the Company's outstanding common shares are held by Canada Development Corporation. Its preferred shares are widely held by the Canadian public.

Corporate Profile

Cover photo courtesy of NASA.

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Polysar Limitée
Secrétariat
201 Front Street North
Sarnia (Ontario)
Canada N7T 7V1



1984 Sales Revenue by Product

- Rubber
\$884 million
63 percent
- Latex
\$284 million
20 percent
- Plastics & Chemicals
\$240 million
17 percent



1984 Sales Revenue by Market Area

- Canada
\$225 million
16 percent
- United States
\$598 million
42 percent
- Europe
\$402 million
29 percent
- Other
\$183 million
13 percent



Notice of Subsequent Event April 9, 1985

Polysar Limited Becomes Sole Owner of Petrosar Limited

Under a restructuring arrangement, announced April 9, 1985, Polysar Limited becomes the sole owner of Petrosar Limited. Polysar is acquiring the investments of Du Pont Canada Inc. and Union Carbide Canada Limited in Petrosar in exchange for a new issue of \$187.8 million of non-voting redeemable preferred shares. Additionally, Polysar will acquire the 20 percent of Petrosar common shares now held by Canada Development Corporation. This signals Polysar's commitment to ensure the long-term viability of Petrosar which is essential to Polysar's Canadian operations.

Under the terms of the restructuring agreement, Polysar will assume all financial obligations of Union Carbide and Du Pont Canada with respect to Petrosar and will be entitled to 100 percent of Petrosar's future income and cash flow.

In turn, Union Carbide and Du Pont Canada will together subscribe to \$208 million of non-voting preferred shares of Canada Development Corporation. CDC will invest the proceeds from that issue in a new issue of Polysar non-voting preferred shares. Polysar will apply these funds to reduce Petrosar's \$400-million debt and allow a plant conversion program to begin.

Union Carbide and Du Pont Canada will remain long-term customers of Petrosar, extending their ethylene contracts with Petrosar to the end of 1994, thereby ensuring near capacity operation for at least ten years.

The key to Petrosar's future profitability is the achievement of lower cost feedstocks. With the federal deregulation of oil prices and a more

market-responsive situation expected for natural gas liquids, Polysar is now able to move ahead quickly with plans for refinery renovations which will make Petrosar a competitive feedstock producer and improve the financial performance of the company.

These renovations, which will allow the use of natural gas liquids for up to 40 percent of its raw material needs, are expected to be completed next year at a cost of some \$100 million. Recently, Polysar Hydrocarbons Limited was formed to participate with CanStates Energy Limited of Calgary in the acquisition, distribution and marketing of natural gas liquids. This will enable Petrosar to acquire the feedstocks it requires at costs competitive with refineries in the United States.

Discussions have taken place with the federal and Ontario governments as to the type of participation that might be expected in Petrosar's restructuring program. While these discussions have been positive, neither government has yet indicated the form such participation might take.

With Polysar becoming sole owner of Petrosar, there will be some reorganization. Any reduction in manpower will occur over time and will be managed to minimize the impact on people.

Sales increased 6% to \$1.4 billion

Earnings improved from \$9 million to \$36 million

Profit recovery in 1983 continued through 1984

1984 marked the completion of the major facilities expansion program

Financial Highlights

Polysar Limited Year ended December 31	1984	1983
Operations (\$ millions)		
Sales and other income	1,416.2	1,336.9
Net income	35.9	8.7
Cash from operations	123.7	62.2
Per Common Share (\$)		
Net income	1.13	0.07
Dividends	0.27	0.27
Financial Position (\$ millions)		
Working capital	148.8	156.2
Long-term debt	644.3	660.2
Minority interest	85.3	85.2
Shareholders' equity	398.0	387.3
Total assets	1,468.7	1,453.0

Commitment to a Vision

By the year 2000, Polysar believes that no more than 20 truly international petrochemical companies will be operating. Polysar is resolved to be among them with a strong leadership position in a number of important business segments.

To achieve its goal of being the best, rather than the largest, petrochemical company, Polysar is dedicated to innovation, quality and technical superiority. Polysar has set seven key goals for itself. Four of these goals are basic to the international theme of this Annual Report, carrying global implications that are particularly relevant to Polysar's view of the industry. Three represent the aims that any responsible Company could be expected to set for itself.

While these goals may be ambitious, the management of Polysar is unwilling to settle for less.

A major international petrochemical company.
Under this designation Polysar will hold strong market positions and maintain a physical presence in at least three of the major trading areas. Over time, each of these areas will contribute equally to corporate performance as the Company achieves a global balance in its operations.

A leader in several significant businesses.
Polysar will realize this goal through growth of its existing businesses, through acquisition, through development of new business from internal technology and through expansion into new geographical areas.

A maker of quality products and a provider of unsurpassed technical service.
To meet the tough competition in the international marketplace Polysar will produce only high-quality products of consistent performance. The Company will continue to provide demonstrably superior technical service and will upgrade that service whenever possible.

An innovative company.
Polysar will fully utilize the creative skills of its people, improving its performance through innovations in processes, products and management. It will continue to expand its efforts in long range and fundamental research to retain its technical superiority and to stay in the forefront of the international petrochemical industry.

Financially successful.
To attract capital for growth and to provide suitable rewards for its investment, Polysar intends to achieve a rate of profitability ranking it among the top 25 percent of petrochemical companies.

A good place to work.
To achieve its other goals, Polysar needs talented people with a strong sense of purpose, commitment and enthusiasm and an intense pride in their work. The Company will see that they are rewarded for performance, offered development opportunities, and given a work environment that is challenging, demanding, and enjoyable.

A valued member of its community.
Respecting the laws, values and cultures in which it resides, Polysar will maintain a reputation as a major asset to its communities, with its advice and counsel sought by community leaders on matters of mutual concern.

For Polysar, 1984 was a year of recovery. While the previous year had demonstrated the Company's ability to pull through the recession, 1984 was the year that produced significantly better results for Polysar worldwide.

It was also a year of consolidation, a year in which the Company's efforts—the capital spending of previous years, the rationalization of many operations, cost-cutting measures, and quality control efforts—came to fruition. Also, by enriching the product mix, we were able to win new customers, increase revenues and improve sales margins.

Revenues were up six percent to \$1.4 billion; but more significantly, net income rose to \$35.9 million compared with \$8.7 million in 1983. Costs were held down to a modest 1.5 percent increase.

The Company-wide commitment to quality products and quality service was the primary motivation for many of the projects and self-improvement activities that continued throughout 1984. The year saw increasing interest and participation in quality management, the techniques of Statistical Process Control and continued efforts to improve productivity by cutting costs and reducing waste.

The most important event in 1984 was the startup of commercial production of the \$360-million Butyl II plant in Sarnia in late January. Incorporating the latest technology, this plant represents the largest single investment Polysar has ever made.

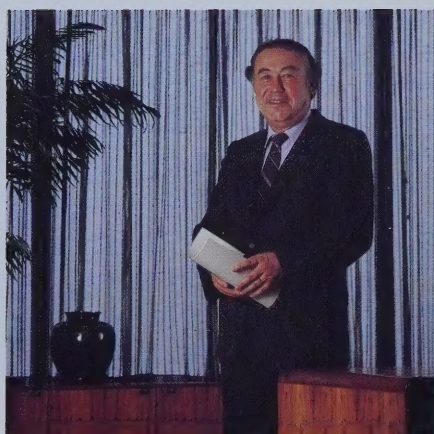
The Rubber Division improved its contribution to the Company's revenues by \$60 million, with the larger proportion of that improvement occurring in North America, as a thriving automobile industry stepped up its demand. The European rubber operations continued to increase their level of contribution from the highs achieved in 1983 despite less buoyant markets. Much of Europe's success in both years can be attributed to gains with such specialty products as nitrile and halo-butyl rubbers.

The Latex Division also did very well, building on a momentum that began earlier. Latex margins benefitted from increased sales of high value-added products. Polysar became firmly entrenched as the second largest latex supplier in North America while remaining a leading supplier in Europe.

The Styrenics Division performed well in 1983 and made a strong showing in the early months of 1984. However, results in the second half of the year were a great disappointment, as oversupply and depressed prices seriously affected profit margins.

Meanwhile, our smaller operations, the Formed Products group in Europe and Custom Compounding in North America, also achieved

President's Report



*R. S. Dudley
President and Chief Executive Officer*

gratifying success. They demonstrated the value of effective management.

Strategies for the Future

Polysar is convinced that the successes of 1984 demonstrate that the Company and its people possess the abilities required to transform the long-range strategic plan into reality.

We have strengthened our current operations and with the completion of several major capital expenditure programs we have provided the capacity necessary to meet market needs for several years. We have dedicated ourselves to quality and technical superiority in all our products and to leadership in a number of selected geographic and product segments. The Company's increasing strength in halobutyls is a good example of this strategy.

Actions have already been taken to expand the Company's operations in the Asia-Pacific region—identified last year as Polysar's "third geography" for future development. Polysar is no stranger to the Far East. For more than 25 years our marketing and technical support people have been working with customers in many Asia-Pacific countries including Japan, Korea, Hong Kong, China, Australia, and New Zealand. In Japan, we are already a significant supplier of rubber and count the major Japanese tire companies as valued customers.

The Company now wants to capitalize on these successes and to undertake a major initiative in China and other Asia-Pacific countries, while retaining its current important position in Japan. It is our long range plan to develop a presence in this market area that is comparable to our North American and European operations.

Petrosar Situation

For many months now, Polysar has been working intensively with its other shareholders in Petrosar in an attempt to solve the problems that have caused it to suffer heavy losses. Petrosar management has made significant strides in cost reduction, energy efficiency and hydrocarbon conservation. They have also identified further ways to reduce costs. However, while all these savings are substantial, they are not sufficient to offset Petrosar's basic disadvantage of high feedstock and energy costs. These two factors represent 85 percent of Petrosar's costs.

Petrosar must buy its basic feedstocks from Canadian sources, at government-regulated prices,

which have lately become higher than world prices. At the same time, the company must sell its ethylene and other petrochemical products at a market price that is determined by its Gulf Coast competitors. These competitors have access to raw materials that are less expensive than Petrosar's. As well, they have the physical flexibility, which Petrosar lacks, to use either oil components or natural gas liquids, depending on which happens to be cheaper and more plentiful. Because of these limitations, Petrosar has found it impossible to operate profitably. Only the most efficient and flexible companies with access to a variety of low cost feedstocks operate today at a profit.

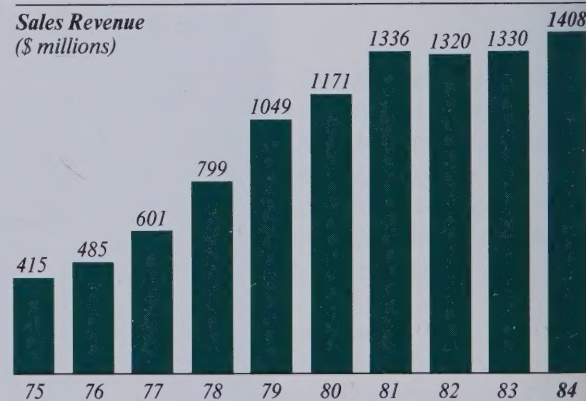
Petrosar's difficulties were accentuated in 1984 by a worldwide decline in the market price of ethylene, propylene, and other petrochemical products. Even though Petrosar's sales volume was up 10 percent compared with 1983, the depressed product prices resulted in disappointing financial results. While it is expected that product prices will improve, it is uncertain when they will recover from this distressed situation.

Financial Performance

Polysar's strong performance in 1984 contributed significantly to restoring the Company to a healthier financial condition.

While the Company successfully increased revenue by 6 percent to \$1.4 billion, it was even more successful in improving total gross margins. This

Sales Revenue
(\$ millions)



Revenue from sales during the second half of 1984 began to benefit from the capacity added during the expansion program.

was achieved by enriching the quality of its product mix with high margin products, maintaining a tight control on costs and improving productivity.

Net earnings of \$35.9 million, or \$1.13 per common share, were four times better than the \$8.7 million or seven cents per share earned in 1983. This improvement was achieved despite the Company's \$26.8 million share of Petrosar's loss. Excluding this loss, Polysar's after-tax income was \$62.7 million, closer to the Company's pre-recession record earnings of 1979 and 1980.

While return on equity is still well short of the Company's goal of 20 percent, it represents a substantial improvement over the performance of the previous two years. The return achieved this year gives us confidence that we are on the right course. However, it strongly underscores the need to continue improving our performance if we are to achieve our return on equity goal.

An Unfortunate Event

1984 was marked by tragedy. Two of our people lost their lives in an explosion on Good Friday in the benzene unit of the Sarnia plant. On behalf of the Company and all its employees, I extend sincere sympathies to the bereaved families. We have taken every possible step to prevent the recurrence of such a tragedy in any of our plants.

Outlook

Polysar's main objective for 1985 is to maintain the recovery achieved in 1984. At the same time

we will work toward long-term solutions for those segments of our business tied more closely to basic hydrocarbons. The Rubber and Latex businesses in North America and Europe are expected to return higher operating earnings. The outlook for the Styrenics Division, however, is not good as prices are not expected to improve until late 1985. Losses from this operation combined with ongoing losses from Petrosar are likely to more than offset the earnings improvement in the Rubber and Latex Divisions next year. Longer term, if Petrosar's problems are resolved, the outlook for the Company is excellent.

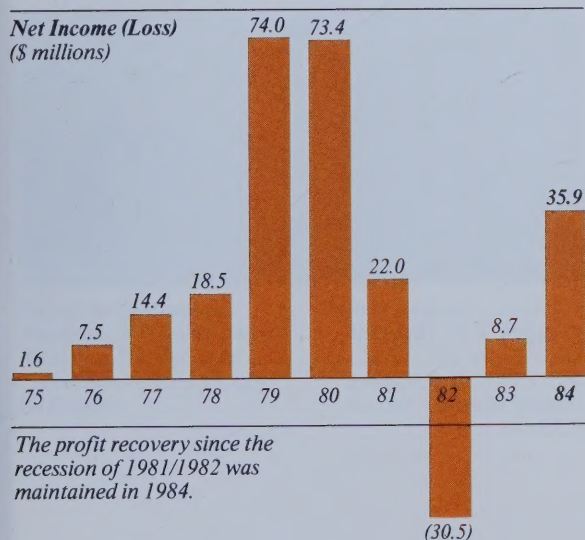
Polysar People

In 1984, people throughout our organization demonstrated the effectiveness of sharing and working toward common goals. On behalf of the Board of Directors I would like to thank all management and staff throughout the Company for maintaining the dedication and loyalty that produced such quality results in 1984.

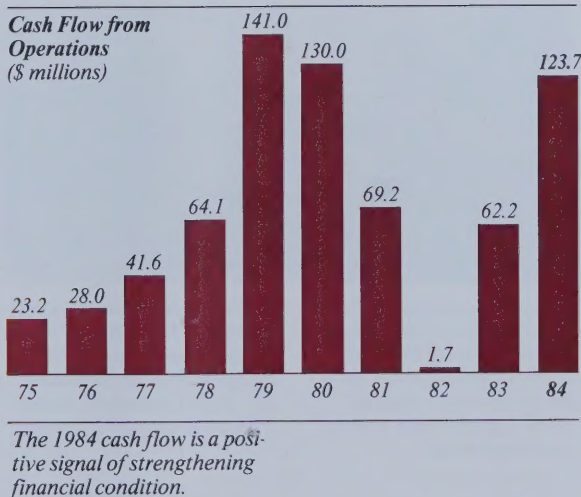
R.S. Dudley

R. S. Dudley
President and Chief Executive Officer
Sarnia, Canada
March 15, 1985

Net Income (Loss)
(\$ millions)



Cash Flow from Operations
(\$ millions)



Polysar has been an international company since World War II. Rubber, a vital commodity in the war effort, was urgently needed by the Allies and industries on the home front. When supplies of natural rubber from Southeast Asia were cut off during the hostilities, the development and production of different synthetic rubbers for specific end uses became imperative. Polysar was one of several enterprises formed in North America to undertake this task, and its first batches of synthetic rubber were produced in Sarnia in 1943.

When natural rubber became freely available after the war, synthetic rubber was an established commodity. It offered advantages for many applications not found in its natural counterpart. The now-familiar Polysar trademark was soon to be seen in many distant countries. It was not until the 1960's, however, that the Company began moving aggressively to consolidate its position on the international scene by investing in manufacturing facilities. In 1962, Polysar opened its first overseas marketing headquarters in Switzerland, a technical service office in Tokyo and a rubber and latex plant in France. This was followed quickly by another plant in Belgium in 1963. By 1970, the Company had plants or sales offices in five European countries and offices in Japan, Mexico and South America.

Throughout the Company's growth and development, the United States market has played a major role. In view of its importance Polysar quickly expanded its commitment to that area

Corporate Overview

Polysar in the global environment



Polysar people operate from offices in most of the industrialized nations of the world. In the following pages, we'd like to introduce some of them, together with some of their customers.

Polysar in Melbourne, Australia: Ken Davis of Reptec Elastomer Products (left) and Polysar Australia Pty. Ltd. Accountant, Luke Ventura.



Polysar in Guildford, United Kingdom: S. G. Thorpe of James Walker & Co. Ltd. (left) with C. G. F. Hughes, General Manager, Polysar (UK) Ltd.

through investments in a number of latex, rubber and polystyrene manufacturing plants and the establishment of a marketing company with sales offices in major cities.

All the Company's common shares were acquired by Canada Development Corporation in 1972. With CDC support, Polysar enlarged its operations and acquired new ones. Today, the company operates 18 plants in six countries and has sales offices in 15 countries. As well, Polysar has such a well-developed and keenly active distribution network that its products are sold in more than 90 countries around the globe. Research is conducted in five countries with Sarnia being the major centre.

There is nothing new about the idea of Polysar as a player on the international scene. What is new is its desire to move out of its traditional role as the world's leading rubber and latex company. The Company plans to become a major international petrochemical company with a broader business base that capitalizes on its established skills in technology and its marketing and financial expertise.

Three basic strategies have been developed to move the Corporation towards achievement of its Vision:

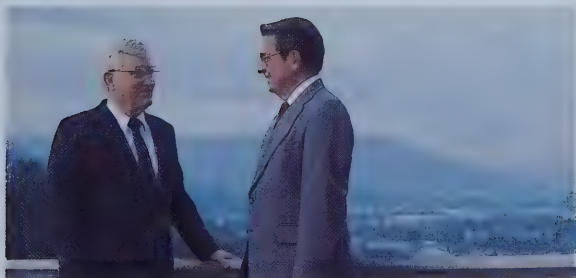
- grow existing strategic businesses aggressively and profitably, with increased emphasis on higher value-added products and profitability based on quality and productivity;
- enter adjacent petrochemical businesses and, by applying the approaches described above, achieve at least a 25 percent share of the Company's profit contribution by 1995; and

□ strengthen the geographic base globally by establishing a physical presence in Asia-Pacific while continuing to grow in traditional regions.

Polysar's management believes these strategies will work effectively by drawing on the Company's strengths and by demanding superior performance from its people. The Company is a global leader in elastomeric polymers, with a competitive advantage by reason of strong market positions, first-class technology, good cost positions and an excellent reputation for its products and services. It has demonstrated its ability to turn around losing businesses by taking aggressive action to reduce costs, improve technology and raise the quality of management. Polysar has an internal network of knowledge and experience that can be expanded steadily into any part of the world where opportunities emerge.

For the short run, from now until 1989, Polysar's objectives will consist of:

- restoring the company's financial strength, as the first and overriding priority;
- continuing to strengthen the role of technology in improving the quality of current business;
- identifying and establishing an initial physical presence in Asia-Pacific;
- gaining a reputation for quality in Polysar products and services that is second to none;
- seeking continued gains in productivity in all functions and physical assets so as to achieve a competitive edge; and
- entering two or more new businesses through internally developed technology and acquisition.



Polysar in Chattanooga, Tennessee: Bob Mann, Shaw Industries, Inc. (left) and Latex District Sales Manager, Ed Davies.



Polysar in Barcelona, Spain (from left): Eduard Reñé, Sales Representative, Polysar Española S.A.; José Albiol, General Manager, Polysar Española; D. Jaime Ribó of TIPSA.



Polysar in Goteborg, Sweden: Gunnar Friberg of AB Volvo (left) with Tony van der Valk, Managing Director, Polysar Skandinaviska A.B.

Each business or function within Polysar has been issued its own special set of directives.

The Rubber Division is expected to improve the quality of its business by emphasizing high value-added products and to strive for maximum productivity without major new capital investment in the near term. The rubber operations in Europe, the U.S. and Canada already have the capacity as well as excellent research and development facilities and the skilled personnel necessary to achieve the desired growth.

The Latex Division has been told to expand its current business, broaden its technology and market bases and diversify its activities.

The Styrenics Division, which performed well in 1983 and early 1984 but is now plagued by overcapacity in the industry, has been charged with the task of developing more high technology products and finding new markets.

Research and Development

At the forefront of the drive toward international recognition and excellence, Polysar's Research and Development Group, 430 strong, is broadening its approach. Of four pilot plants now being installed at Sarnia, two are devoted to process development. Meanwhile, a separate Corporate

Research and Development Group, formed in 1983, is looking for new opportunities for Polysar in whole new fields within the world of petrochemicals. By exploring new technologies, new materials and emerging needs, Corporate R & D will be instrumental in keeping Polysar at the forefront of the international petrochemical industry.

Information Systems

Recognizing that computer technology will continue to play an increasingly important role in support of the Company's dedication to quality and service, Polysar has embarked on an ambitious program to extend information systems resources even further throughout the organization.

As it extends its reach around the globe, Polysar is using new developments to provide closer links among its own operating groups and more effective communication with its customers and supplies. When the present program is complete, all Polysar offices throughout the world will be interconnected, giving each location on-line access to the Company-wide information system.

Toxicology

Polysar is sensitive to the health and welfare of its employees and the communities in which it operates. The Company places the highest priority on ensuring that harm is not caused by any substances used in or derived from Polysar processes



Polysar in Sao Paulo, Brazil (from left): Marco A. Sarti and Armando Osimo of Cia Goodyear do Brasil, with Roger Gervais, General Sales Manager, Polysar do Brasil.



Polysar in Hong Kong: Alice Chen, Area Manager, Polysar International S.A., Hong Kong and H. T. Li, Representative of the China Council for the Promotion of International Trade.



Polysar in Paris, France: (from left) Claude Lacoste, General Manager, Société Française Polysar, Arnold de Beco, Groupe Arnold, and Guy Giger, President SFP.

and products. This sensitivity to environmental concerns including occupational health, pollution control and product safety begins with management and extends through all phases of the Company's operations. There is a clearly defined policy on toxicology and adherence to this policy is carefully monitored by corporate, regional and local toxicology groups within Polysar.

Potential exposure of employees, customers, and the environment to chemical substances is monitored regularly. Each year every Polysar operating site worldwide is subject to an audit by the Corporate Toxicology Group in which plant performance is reviewed relative to corporate policy. Late in 1984 in response to the crisis in India, the Company initiated a further critical audit of its operations around the globe, "Operation Triple Check," to ensure that every workplace is made as safe as humanly possible.

In 1984 Polysar began developing a more effective system at Sarnia site to monitor employee health and workplace exposure to toxic substances. This system eventually will be extended to Company operations worldwide.

Also started in 1984 was a computerized data base on the characteristics of all chemical sub-

stances used throughout the Company. All operations will have access to this computer file of more than 3,000 chemicals.

People

Polysar has more than 6,000 employees worldwide—approximately 3,500 in North America and 2,500 in Europe and Asia/Pacific. This diverse group of people representing 52 nationalities and speaking more than 40 languages possess the administrative, manufacturing, sales and technical skills that Polysar needs to make it a leading international petrochemical company. The Company encourages employee development in the form of courses and on-the-job training. It has developed a manpower planning system to identify and advance employees with potential and regularly transfers employees within its three basic operating geographies to broaden their experience.

Having predicated part of its long-term strategies on the creative innovation of its employees, Polysar also actively encourages ingenuity through financial rewards. The Company publicizes these awards to encourage broad employee participation. Last year a Polysar researcher spent \$52,000 modifying the piping in a distillation column to improve efficiency and saved the Company \$2.5 million in the first year.

In 1984 Polysar introduced a new compensation package for salaried employees based on the Company's two basic compensation principles: as the Company achieves its financial objectives, it can afford to pay better; and it must reward outstanding performance to retain its skilled employees and encourage them to achieve Company goals. In line with this the Company introduced a system of variable compensation that comprises two parts—a base salary determined by individual performance and the opportunity to earn bonuses based on total Company and component business performance.

The combination of base salary and Company performance bonuses make the compensation package highly competitive and even superior to the competition in a good year. This program was offered in 1984 to Polysar's salaried employees in North America, and participation was optional. Seventy-five percent of those eligible chose to take part. In early 1985 variable compensation was adopted for all North American salaried employees and is now partly in place in Europe.



Polysar in Sarnia (from left): Ron W. Britton, Director of Rubber Sales, North and South America, Harry T. Johnston, Goodyear Canada Inc., and Ken Ritchie, Canadian Rubber Sales Manager.



Polysar in Tokyo, Japan: R. Kase, President, Sanyo Trading Co. (left) with P.C. Mayer, General Manager, Asia-Pacific Region, Polysar International S.A.



As one of the world's largest producers of synthetic rubber, Polysar operates rubber manufacturing facilities in five countries, supplying materials for tires, automobiles and numerous other industrial and consumer products.

From the membrane-covered roofs of the latest highrises to the depths of oil wells rigged with drilling equipment, synthetic rubber has become an essential component in thousands of manufactured items. In today's automobile, for example, tires are the most obvious application; but there are hundreds of others.

Polysar has asserted its leadership in this field by maintaining a superior worldwide marketing network while constantly improving its synthetic rubbers and developing new ones. The Company is well placed to meet the major tire makers' requirements for halogenated butyl products, especially bromobutyl which is the premium rubber used for radial tire inner liners.

The Company's line of butyl rubber products had much to do with the Rubber Division's business success in 1984, a year of solid growth in Europe and a dramatic turnaround in North America. The impact of this recovery on Polysar as a whole was substantial, inasmuch as rubber accounted for 63 percent of Company revenues.

As the automobile industry stepped up its demand for rubber products, markets became buoyant, and Polysar's sales people made significant progress with several major accounts. They achieved particular success with halobutyls capitalizing on the tire industry's preference for these products.

The ability of Polysar's products to attract and hold major customers can be attributed in large measure to two of the Company's major strengths. One is the extensive, high-quality technical support the Company provides to its customers. As a regular practice, Polysar people go into customer plants to work side by side with manufacturing personnel, solving production-line problems and finding ways of tailoring Polysar products even more precisely to each customers needs.

Another important strength lies in the quality of Polysar's specialty rubbers, such as nitriles, halobutyls and ethylene-propylene rubbers. Not only are these specialties in increasing demand (ethylene-propylene rubber is the fastest-growing rubber product in the United States), they also produce higher margins. Having carried out an extensive capital-investment program over the past 10 years, the Company is now in a good position to exploit its ability to serve these growth markets. The Company has the technical capability to research, create and develop new specialty products, and the productive capacity to manufacture them in large volumes.

Sarnia Operations

Sarnia, Canada, is the site of the Rubber Division's largest operation, with the greater part of its

Operations Review: Rubber



It's hard to imagine today's world without the ubiquitous rubber tire. For Polysar that means a world of customers for several precisely manu-

factured synthetic rubbers that tire makers need to build those tires. And we're working hard in our laboratories and plants to make sure we can provide the right kind and quality of rubbers needed for the tires of tomorrow.



Polysar in Milan, Italy: Piergiorgio Pizzamiglio, General Manager of Polysar Italiana S.p.A.



production exported to the United States. It is also the site of the most modern butyl rubber plant of its kind in the free world. The first commercial product came off the finishing line at the new \$360-million plant, known as Butyl II, in January 1984. Using state-of-the-art instrumentation and equipment, the new plant is now the primary source of butyl for all of Polysar's North American customers and is shipping some product abroad. The start-up of Butyl II has left the original butyl rubber plant in Sarnia free to concentrate on halogenated butyls, for which demand is growing rapidly.

Demand for these high value-added products, an improved economic climate, a strong U.S. dollar and a series of productivity improvements and cost reductions begun in 1983 contributed to a turnaround in profitability for the entire Sarnia rubber operation. In addition, styrene butadiene rubber and polybutadiene rubber production were downsized in recognition of oversupply and unattractive economics.

More than 1,000 Sarnia employees, from all functions and levels, received quality-related training in 1984. New control techniques and basic improvements in processes were introduced on the plant floor. These actions are being developed further in 1985 and will continue for several years, seeking ever-higher standards of quality.

An addition to the Sarnia plant's steam and power facility, to provide the increased energy for the new Butyl II plant, was put into operation. Also, a new isobutylene extraction plant became fully operational in 1984.

U.S. Operations

Polysar Gulf Coast, Inc., which manufactures ethylene propylene and polybutadiene rubbers in Orange, Texas, achieved the most dramatic turnaround of any Polysar operation in 1984.

The recovery actually began in 1982, when Polysar initiated Company-wide programs of cost-cutting and productivity enhancement. The full impact of these measures was felt in 1984 when generally strong market demand made it possible to exploit Polysar's high value-added products more successfully than ever. An operation that was ailing in 1982, emerged from 1984 making a substantial contribution to corporate revenue.

While Sarnia's production of polybutadiene rubber is used primarily as a plastics modifier, this product is produced in large volume in the Orange, Texas, plant for the tire industry. This new, improved tire-grade rubber has been winning increasing acceptance from major tire manufacturers who have recognized its superior attributes.

An additional gain in market share occurred with the shutdown of a competitor's plant in Borger, Texas. Polysar's polybutadiene rubber plant in Orange operated at full capacity through

most of 1984, after a slow start in the first quarter.

The future of ethylene propylene rubber has looked brighter since several major accounts gave technical approval to Polysar rubber for roofing membrane applications. Customer acceptance of this rubber is based not only on the merits of the product itself, but also on the system Polysar has developed for applying it as a roof sealant.

Looking ahead, the U.S. Rubber Group, expects to retain and build upon the gains which its efficiency and marketing efforts produced in 1984.

European Operations

European and other international sales outside the Americas are directed from Fribourg, Switzerland. Sales for this group predictably grew less dramatically in 1984 than in the previous year. Nevertheless, Polysar outperformed the market. The Rubber Group's overall sales growth was not substantially higher, but the mix of business was more profitable with strong demand for such high margin products as halobutyl and nitrile rubbers. All the major tire companies in the region are Polysar customers. Sales of halobutyls increased 10 percent, while sales of nitrile rubber also increased substantially. Gains were made in all major geographic areas served from Europe—the Middle East, Africa, Southeast Asia, Japan and Europe itself.

High margin products make up a larger proportion of the product mix in Polysar's European operations than in North America. All three Polysar rubber plants, in France, Belgium and The Netherlands, operated close to capacity to meet the demand for nitrile and halobutyl rubbers.

Progress was made in ethylene propylene rubbers and near year end, a new grade was launched which provides cost savings without loss of physical properties.

Outlook

As long as the economy continues as it is, the Rubber Division should produce results in 1985 similar to those of 1984. More growth is expected in the Asia-Pacific area than in Europe. The challenge in 1985 lies in attempting to achieve improvements similar to those recorded in 1984.

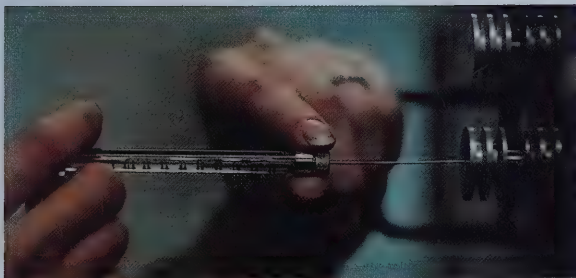
Polysar's 1985 strategy will be to build on the success it had in 1984 with its specialized butyls, nitrile and ethylene propylene rubbers and to maximize its return on existing assets with no additional capital expenditures.



Polysar supplies a special kind of oil resistant synthetic rubber for this packing unit, a key component in a wide range of oil well blowout preventor units made almost exclusively by the Hydril Company of California. Special rubbers for special uses are a result of continuous development and evaluation of new rubber compounds in Polysar's worldwide research and technical development facilities.



Operations Review: Latex



The excellent adhesive qualities of synthetic rubber latex has ensured a sure and expanding market for Polysar with the carpet manufacturers of the world since the 1940s. As

with all of our products, we aim at a level of quality which can meet the exacting standards of our customers everywhere.

Product safety is important to us too. Regular testing for residual styrene monomer in latex products is part of the reason why Polysar is a reliable and trusted supplier.



Polysar in the Federal Republic of Germany: Bernd Th. Wildoer, Commerzbank Wiesbaden-Biebrich (left) and Volker Leinhos, General Manager, Polysar (Deutschland) GmbH.

As one of the world's leading producers of rubber latex, Polysar provides essential materials to a host of manufacturers throughout the world.

Latex is simply particles of synthetic rubber suspended in water. Latex is derived from petroleum products but there are primary and intermediate stages of petrochemical refining before the actual latex manufacturing process can take place.

Polysar's six plants, located in four countries, have a combined capacity of about 200,000 tonnes a year. Collectively their production consists of styrene-butadiene latex used in foam rubber carpet backing, cushions, mattresses, tire adhesives and asphalt additives; carboxylated latex used in adhesives for carpeting, upholstery and non-woven fabrics, vinyl floor backing, coated paper and even concrete; vinyl-chloride latex for flame-resistant fabric finishing and wallpaper coating; nitrile latex for making adhesives, gaskets and imitation leather; and acrylic latex for finishing textiles and non-woven fabrics.

Polysar expanded the specialty sector of its business about five years ago by acquiring several latex companies and providing them with the leadership they needed—improving their technology, eliminating inefficiencies, introducing new products and changing their structure and personnel. Today, the Division operates as a single, effective and profitable global organization. It has senior management groups in Europe and North America and strong sales forces and efficient, well-established plants in major market areas.

Latex has advanced from a position in 1980 as a contributor of little revenue to the point where it represents some 20 percent of Polysar's revenues and is a significant contributor to profits. Now the Division has entered a new phase—looking for technology that will lead to new products, new applications and vigorous growth.

Some new products have only just begun to develop markets with huge potential: latex to mix with concrete to prevent bridge decking from succumbing to salt; latex as an additive to help asphalt withstand the ravages of temperature extremes and wear longer; and latex-based adhesives to replace those with solvent bases.

As in all divisions of Polysar, the quest for new opportunities never ends. One group of researchers is assigned to create the best possible design for the manufacturing process of the future. A second group is looking for new applications for latex. A third is researching basic knowledge that will enable the Company to develop products suitable for these new applications.

While these market possibilities for the future are still being developed, the Latex Division relies for its revenue on such traditional applications as



carpet backing, various kinds of adhesives, and paper coatings. These markets grew reasonably well in 1984, and Polysar made the most of them through effective cost management. Pricing was under pressure as a result of declining feedstock prices but good margin management helped preserve profitability.

In Europe, where latex competition is stiffer than in North America, volumes were much the same as in 1983. As a result, Polysar's 1984 margins were squeezed not only by competition but also by economic conditions. In Europe, the majority of all manufactured carpets are backed with foam latex, and this huge market is closely tied to the fluctuations of the building industry, which was sluggish in 1984. A second factor was the strong U.S. dollar, which adversely affected the price of imported raw materials. Even at that, the European operation, centered in Strasbourg, France and Arnhem, The Netherlands, managed to achieve its 1984 objectives by strict cost control, maintaining tight management of working capital and introducing more cost-effective processes.

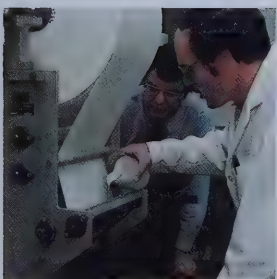
In North America, Polysar's sales grew with the economy. Despite softening prices and serious declines of some markets (notably foam-backed carpet), margins were kept at reasonable levels with the help of such factors as improved operating efficiencies, a decline in feedstock prices, and the results of three intensive years of cost-cutting.

The North American group's quality program won recognition in 1984 when two major corporations, one a leading car maker, the other a prominent paper company, granted the Company Class One approvals. These approvals acknowledged that Polysar's latex products are consistently achieving quality excellence.

Outlook

The Latex Division expects more modest growth in 1985. Competition is certain to be intense as additional latex manufacturing capacity is brought on stream. Declining feedstock prices also will continue to put pressure on product pricing. However, Polysar is confident that its newer high value-added products from which it expects to achieve most of its future growth will contribute positively to 1985 results.

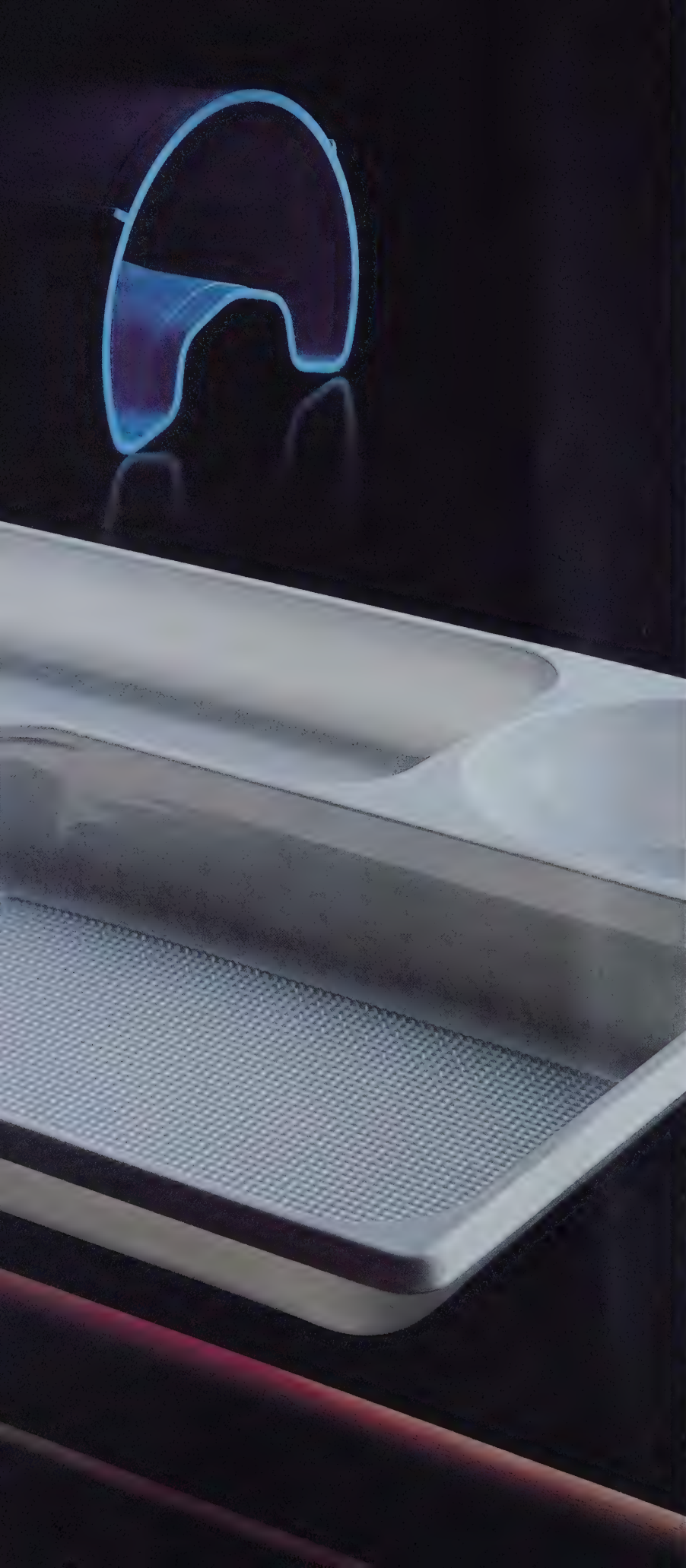
For the longer term Polysar is looking at the potentially huge markets of the Far East.



Every time you see a sheet of glossy paper or paperboard, you can be sure that synthetic rubber latex is an essential ingredient in the material used to coat that paper. In this case, latex is the adhesive that binds the clay-based coating to the paper, providing the printer with the surface he needs for quality printing and colour definition. And the search continues in our laboratories for better products and better ways to serve the needs of our customers.



Polysar in Fribourg, Switzerland: Philip S. Byrne, Director of Sales (left) and Jacques A. Bouma, General Sales Manager, Polysar International S.A.



Operations Review: Styrenics, Formed Products and Custom Compounding



An idea of the diversity of items that can be made from the products of Polysar's smaller businesses can be seen here. From top: the polystyrene plastic dust cap for a Canadian-made electric broom; one of a wide variety of disposable plastic food service and packaging items in use today; some examples of specialty silicone rubber wire and cable insulation.

To maintain customer confidence in the high quality and dependability of Polysar products, our laboratories run regular tests on product samples to check physical properties and specifications.

Polysar in Arnhem, The Netherlands: J. E. van Duyn, Managing Director, Polysar Handelmaatschappij B.V. (left) with C. Tenwolde, Vredestein N.V.

Styrenics

Polysar's Styrenics operations consist of styrene monomer production in Sarnia and the processing of about 50 percent of that monomer into polystyrene resin at four other Company plants in Canada and the United States. One quarter of the monomer is consumed by Polysar's rubber and rubber latex operations and the remainder is sold on the open market.

For Styrenics, 1984 was a difficult year. The Division performed well for the first six months but encountered serious problems from early summer on, when global market conditions deteriorated. These problems more than offset the gains made in the first half of the year.

Demand in the first half of 1984 was strong for styrene and polystyrene resin. Plant problems in North America created product shortages providing an opportunity for strong sales volumes and good margins.

However, market conditions changed dramatically in the second half. The industry's plant problems were resolved and the supply situation eased. A strong U.S. dollar attracted imports of Styrenics products and raw materials. The situation was further aggravated by new styrene capacity which came on stream in Canada. As a result, prices—already depressed in export markets—came under severe pressure in North America.

Polysar continued to reposition itself in that segment of the market where applications require direct sales and technical service. While overall market share was maintained, gains were made in higher value-added areas offering significant potential for growth.

A tragic accident occurred in the Styrene operation in Sarnia on Good Friday, when an explosion in the benzene unit killed two employees and injured a third. The Company assigned a team of its own people to review practices in all areas where hazardous materials are handled. The recommendations made are now being implemented.

The outlook for Styrenics in 1985 is not encouraging. There is an excess of capacity and competition is strong. Industry rationalization will be necessary to improve this situation. Until that occurs, margins are expected to remain weak.

For the short run, Polysar will continue emphasizing product quality, consistency and customer service. For the long run, the Company is increasing its technical effort in plastics as a means of diversifying into more specialized products with higher margins.

Formed Products

The Bellaplast group of companies has three plants located in Alf, Deizisau and Kleve, West Germany producing various consumer products for industrial catering, food packaging and horti-

cultural use. The Division's results in 1984 confirmed the value of measures begun in 1983, when the business was decentralized into three profit centres, each responsible for sales, production, planning and product development. The new organization has reduced costs and is more flexible and more responsive to customer needs. The cumulative improvement in productivity since 1980 has been almost 50 percent.

About 20 percent of all sales were of products introduced within the past two years. These include a new lightweight drinking cup, transport trays for horticultural products, transparent polypropylene snack packaging, and multilayer coextrusion sheets for various technical and packaging applications.

Sales of catering disposables were strong but sales of vending cups going into large factories were temporarily affected by several industrial strikes.

Volumes were up slightly over 1983 and market shares were generally maintained in Germany. The Company also increased exports and selling prices rose by an average five percent, reflecting an increase in raw material costs. Extensive measures were taken to improve product and processing quality, notably in the Kleve plant, and the benefit of these measures are expected to be evident in 1985.

Custom Compounding

Three Polysar plants in the United States—two in Ohio and one in New Jersey—specialize in developing and blending compounds for the rubber fabricating industry.

Profits in 1984 were the highest ever achieved in the 11-year-old operation. Success is attributed to increased sales, a growing proportion of higher-margin proprietary products, increased productivity, improved product quality and a reduction in material losses. Sales of specialty products were especially noteworthy, with a 50 percent increase in silicone compounds, and significant progress in an adhesive and sealant product line being marketed in North America, Europe and the Far East.

The year's profits would have been even higher, but for the shutdown and writeoff of a plant in Bound Brook, N.J., whose operations were transferred to the East Brunswick, N.J. plant.

A program to train employees in the techniques of Statistical Process Control was introduced, and more than 30 percent of them have now completed this training.

For 1985 the main objectives are greater utilization of plant capacity and increased sales through geographic expansion of markets and improved service and product quality.



*Polysar in Akron, Ohio:
Zoltan J. Dorko, General
Manager, Polysar Incorporated (left) and W. S. Myers,
The B.F. Goodrich Company.*

Chief Financial Officer's Report

Analysis of Results

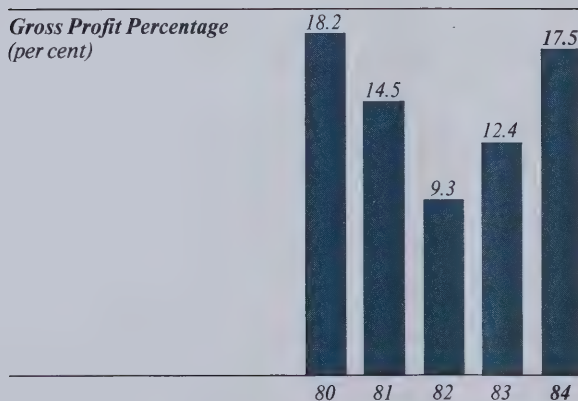
Polysar's profit recovery of 1983 continued in 1984. Before taking into account its share of Petrosar losses, net income of \$62.7 million was almost double the \$32.9 million earned in the previous year. Sales increased six percent to \$1,408 million. The substantially better results were managed despite only modest improvements in worldwide petrochemical markets.

The international character of Polysar's business is demonstrated by the \$600 million of sales marketed in some 90 countries outside the U.S. and Canada. That represented 42 percent of total sales, while U.S. sales accounted for another 42 percent. Canadian sales were only 16 percent of the total.

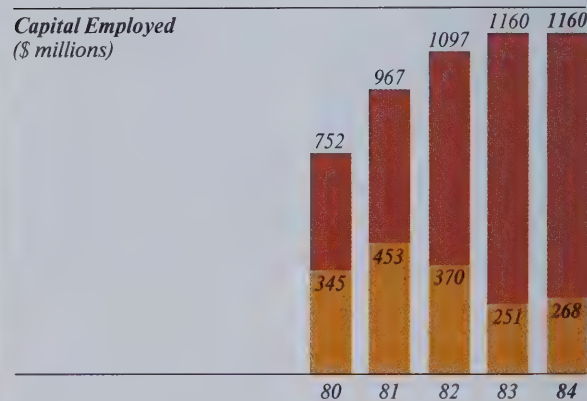
Earnings improvement was widespread geographically, but was not uniform across product lines. Strong performances from the rubber and latex businesses around the world offset weakening results in the styrenics business.

Major increments to the Company's worldwide production capacity were successfully brought into service over the last few years. The start-up of these new facilities brought about a significant transition in Polysar's worldwide operations and logistics. Some changes have resulted in short-term distortions while others represent long-term shifts in product and market emphasis.

Through the transition period, production levels were strategically managed worldwide to shift volumes and maximize productivity. These short-term changes, combined with an excellent mix



Continued pressure on controlling costs contributed to the major improvement in gross profit margins.



Capital employed was unchanged from 1983. Working capital reflects continued control over trade receivables and inventories.

■ Capital employed
■ Working capital, net of cash and borrowings

of higher margin products, favoured the profitability of the European group in 1984, at the partial expense of other geographic operations.

The ongoing emphasis on these higher technology products combined with strict cost controls has resulted in a shift in product mix and an improved gross profit percentage. At 17.5 percent of sales, the gross profit was more than five percentage points better than the 12.4 percent in 1983, and was close to the pre-recession level of 18.2 percent achieved in 1980. The absolute level of 1984 cost of sales was held below that of 1983 despite the six percent higher sales volume. The chart below illustrates this important turnaround. Selling and administrative expenses at \$72.4 million reflect continued emphasis on cost control. Despite salary increases after a period of salary freezes, selling and administrative expenses represented only 5.1 percent of sales, unchanged from 1983.

Research and development costs of \$24.5 million, 1.7 percent of sales revenue, have been segregated in the 1984 statements to highlight their significance to Polysar which is ranked in the top 20 among Canadian companies in terms of research and development spending. Approximately 53 percent of these costs were incurred in Sarnia, including the first full year's expense of the Corporate Research and Development Group formed in 1983. The remaining 47 percent was

incurred at technical research centres in Stow, Ohio; Chattanooga, Tennessee; Strasbourg, France; Antwerp, Belgium; and Arnhem, Holland.

An \$18.7 million increase in total financing expense, including dividends paid to minority interests, was primarily attributable to interest expense which was no longer capitalized when the new butyl rubber plant came on line in mid-1984.

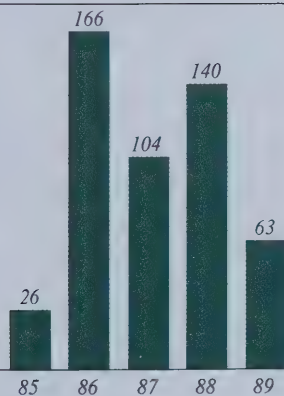
The average rate of interest paid in 1984 was 11.0 percent, not significantly different from that incurred the preceding year. A variation of one percentage point in the rate of interest results in a net impact on Polysar's income, after tax, of approximately \$5 million.

Polysar's 40 percent share in earnings from Hules Mexicanos, S.A. of \$4.1 million improved from \$3.8 million in 1983. This strong performance and an improved financial condition, despite the devaluation of the Mexican Peso, justified the payment of a dividend for the first time in several years. Losses from the Company's plastic forming investment in Switzerland reduced total investment income to \$2.8 million compared with \$3.8 million in 1984.

Petrosar suffered a net loss after dividends on Class "A" Preference Shares of \$54.8 million in 1984 of which 48 percent or \$26.8 million (1983—\$24.2 million) was attributed to Polysar.

Consolidated net income for the year was \$35.9 million, up sharply from \$8.7 million recorded in 1983. After payment of dividends on preferred shares, earnings per common share were \$1.13 compared with \$0.07 in the previous year.

**Debt and Debt
Equivalent Maturities**
(\$ millions)



In 1985, with major projects completed, financial management will be directed toward the refinancing of 1986-1988 maturities of long-term debt.

Financial management

Progress was made toward achieving major financial goals and objectives. Profitability, as measured by return on equity, improved substantially. Cash flow from operations almost doubled to \$123.7 million from \$62.2 million in 1983. The completion of the major facilities expansion program permitted a substantial reduction in capital expenditures to \$57.2 million from \$144.2 million the previous year. Tight control of working capital requirements was maintained.

Total capital employed at December 31, 1984 was virtually unchanged from the previous year:

<i>Analysis of Capital Employed:</i> (\$ millions)		
	1984	1983
Long-term Debt	\$644.3	\$660.2
Deferred Income Taxes	32.5	27.7
Term Preferred Shares in a Subsidiary, etc.	85.3	85.2
Capital Stock:		
Preferred	44.2	44.2
Common	170.1	170.1
Retained Earnings, Net of Translation Adjustment	183.6	172.9
	1160.0	1160.3

In accordance with the Company's financing strategy a total of \$34 million of long-term debt was contracted in various currencies by foreign subsidiaries in 1984, the proceeds being used to retire

existing debt. Its international operations enable borrowings in foreign currencies to be matched by the natural hedge of revenue generation in the same currency, thus avoiding the exposure to volatile movements in foreign exchange rates.

Maturities of long-term debt and debt equivalents over the five-year period, 1985-1989 are as follows:

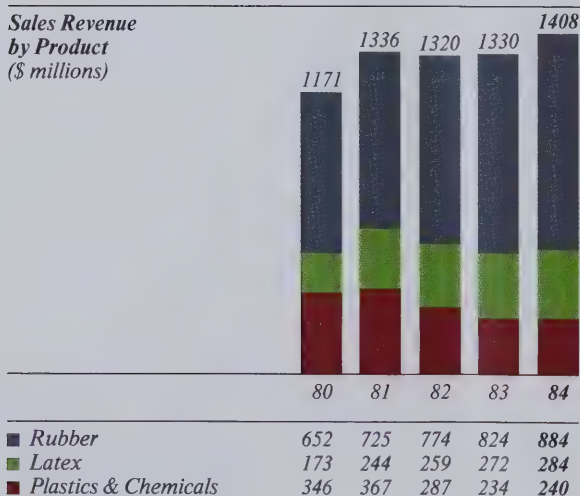
(\$ millions)	
1985	26
1986	166
1987	104
1988	140
1989	63

Without the burden of major expenditures on new facilities, with continued control over working capital and with an increased utilization of existing assets, Polysar's financial plans call for the cash generated from operations to be increasingly available to fund these maturities and to meet the Company's primary objective of restoring financial strength. The 1984 cash flow is a strongly positive signal of Polysar's ability to achieve this objective.

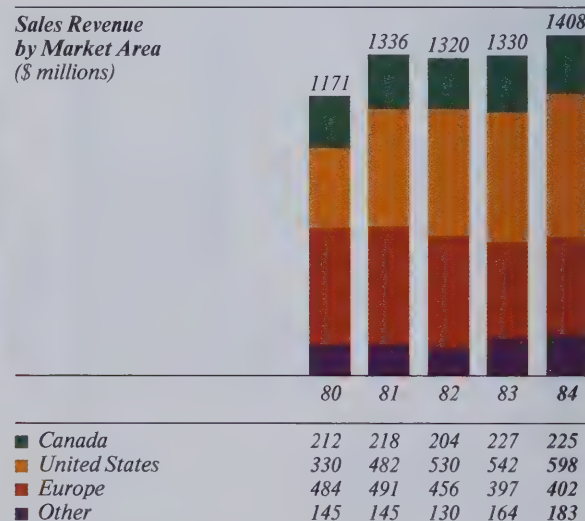
Investment in Petrosar

As reported above, Petrosar Ltd. recorded a loss in 1984 after dividends on Class "A" Preference

*Sales Revenue
by Product
(\$ millions)*



*Sales Revenue
by Market Area
(\$ millions)*



Shares of \$54.8 million, following a corresponding loss in 1983 of \$52.7 million. Polysar's share of these losses is 48 percent, the remaining 52 percent being attributable to Union Carbide Canada Ltd. and Du Pont Canada Inc.

Petrosar's facilities were constructed in the mid-1970's on the assumption that Canada's relatively abundant supplies of oil and gas, in conjunction with Government policies favouring upgrading in Canada, would provide the petrochemical industry with a feedstock and energy cost advantage. Government intervention and regulation have unintentionally eliminated this advantage in the last few years, causing the costs of Petrosar's oil based feedstocks to be higher than those of its major competitors in the U.S. These higher input costs cannot be passed along since product prices are set on the open market in the U.S. Gulf Coast based on a market responsive feedstock situation.

Since commencing commercial production in 1978, consistent with Government policy to use less oil, Petrosar has invested \$123 million in plant changes to reduce its crude oil usage from 150,000 to 65,000 barrels per day.

The shareholders of Petrosar have subscribed \$341 million in the form of capital contributions since the creation of the Company. After providing for accumulated losses, including dividends on Class "A" Preference Shares, the surviving value of shareholders' equity at December 31, 1984 was \$182 million. Additionally, shareholders advanced a total of \$95 million in 1984 in the form of prepayments for future product purchases.

The remaining capitalization is provided by Canadian chartered banks in the following form:

	December, 1984 (\$ millions)
Term Loan due 1985/89	100
Class "A" Preference Shares	300

Shareholders are obligated to ensure the availability of any funds that may be required to meet maturities of these instruments. Following a favourable tax ruling provided in 1984 by Revenue Canada, the lending banks agreed to defer until December 31, 1985 the redemption of \$120 million Class "A" Preference shares which otherwise would have fallen due in 1984. Polysar's exposure (48 percent) to Petrosar's 1985 debt maturities of \$200 million is \$96 million. A program for the restructuring of Petrosar's obligations to banks

forms an integral part of the viability plan developed in 1984 by the management and shareholders of Petrosar. Implementation of this plan cannot be justified until the Company is assured by the Government of a supportive long-term policy environment. At the time of writing, negotiations were in progress and a resolution of the many issues is expected in the near future.

Outlook

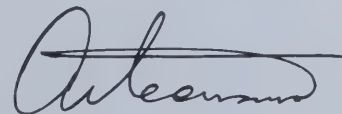
The major issue for 1985 lies in a speedy resolution of the uncertainties surrounding the restoration of Petrosar to viability. Although the full benefits of the proposed changes would not be available until 1987, commitment to the implementation of Petrosar's plan would signal a confident expectation of Petrosar's future profitability.

The Rubber and Latex businesses in North America and Europe have started the year in healthy market environments. The impetus from 1984, development of new markets and effective cost management should result in higher operating earnings in these core businesses.

The outlook for the Styrenics operations is quite different. Styrene prices began to decline in the middle of 1984 reaching a low point around year-end and this decline has continued into early 1985.

Polysar expects 1985 to be a challenging year. Full operating costs of all new facilities will be incurred without the full benefits from capacity utilization and operating efficiencies. Income goals indicate that the levels achieved in 1984 may not be repeated, though cash flow from operations should be maintained.

With a favourable resolution to the Petrosar issues, Polysar's longer term prospects are excellent. Its expanded facilities and established international strength provide a solid base for continued growth and profitability.



A. T. Cousins
Vice President, Finance and Administration
Sarnia, Canada
March 15, 1985

Consolidated Balance Sheet

Polysar Limited
December 31

Assets	1984 (\$ thousands)	1983 (\$ thousands)
Current		
Cash and short-term investments	13,770	20,927
Accounts receivable	201,573	204,789
Inventories (Note 3)	242,038	223,030
	457,381	448,746
Investments		
Petrosar Limited (Note 4)	89,469	116,241
Other	43,216	42,421
Property, Plant and Equipment (Note 5)	748,156	793,242
Deferred Charges and Other Assets (Note 6)	130,430	52,335
	1,468,652	1,452,985

On behalf of the Board

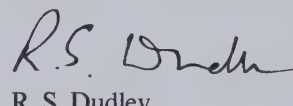
R. S. Dudley
Director

D. C. Jones
Director

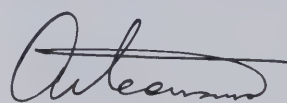
Management's Report to the Shareholders

The management of Polysar Limited is responsible for the integrity of all information and representations included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted Canadian and international historical cost accounting principles consistently applied, and reflect estimates by management where necessary. The Company's significant accounting policies are summarized in the notes to the consolidated financial statements. Financial information contained in this Annual Report is consistent with the financial statements. The Board of Directors, through the Audit Committee, which is composed solely of outside directors, oversees management's discharge of its financial reporting responsibilities.

Independent auditors, Peat, Marwick, Mitchell & Co., provide an objective, independent review of the Company's reported operating results and financial position. The independent auditors have full access to the Audit Committee.



R. S. Dudley
President and
Chief Executive Officer



A. T. Cousins
Vice-President
Finance and Administration

Liabilities	1984 (\$ thousands)	1983 (\$ thousands)
Current		
Short-term loans	106,895	93,787
Accounts payable	167,097	170,261
Income and other taxes payable	6,795	4,963
Dividends payable	1,750	1,772
Long-term debt due within one year	26,077	21,791
	308,614	292,574
Long-term Debt (Note 7)	644,320	660,231
Deferred Income Taxes	32,455	27,742
Minority Interest (Note 8)	85,268	85,170
Shareholders' Equity		
Capital Stock (Note 9)	214,341	214,341
Retained Earnings	195,122	172,927
Cumulative Translation Adjustments	(11,468)	—
	397,995	387,268
	1,468,652	1,452,985

Auditor's Report to the Shareholders

We have examined the consolidated balance sheet of Polysar Limited as at December 31, 1984 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results

of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in accounting for foreign currency translation as explained in Note 2, with which we concur, have been applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

Chartered Accountants
February 15, 1985
Toronto, Canada

Consolidated Statement of Income

Polysar Limited
Year ended December 31

	1984 (\$ thousands)	1983 (\$ thousands)
Revenues		
Sales	1,408,406	1,330,259
Other income	7,806	6,641
	1,416,212	1,336,900
Costs and Expenses		
Cost of sales	1,162,524	1,167,177
Selling and administrative	72,382	66,810
Research and development	24,513	23,292
Interest on long-term debt	79,880	70,815
Other interest	15,832	21,592
Interest capitalized	(23,063)	(37,860)
	1,332,068	1,311,826
Income Before Taxes	84,144	25,074
Income taxes (reduction) (Note 10)	18,000	(9,700)
	66,144	34,774
Income from investments	2,801	3,779
Minority interest	(6,292)	(5,683)
Income Before Petrosar	62,653	32,870
Loss from investment in Petrosar	(26,772)	(24,177)
Net Income	35,881	8,693
Net Income per Common Share	\$1.13	\$0.07

Consolidated Statement of Retained Earnings

Polysar Limited
Year ended December 31

	1984 (\$ thousands)	1983 (\$ thousands)
Retained Earnings, Beginning of Year	172,927	177,920
Net income	35,881	8,693
	208,808	186,613
Dividends		
– Preferred shares	6,857	6,857
– Common shares	6,829	6,829
	13,686	13,686
Retained Earnings, End of Year	195,122	172,927

Consolidated Statement of Changes in Financial Position

Polysar Limited
Year ended December 31

	1984 (\$ thousands)	1983 (\$ thousands)
Cash Requirements		
Capital spending	57,152	144,198
Investment in Petrosar	–	12,000
Prepayments against future deliveries from Petrosar (Note 4)	45,600	–
Dividends	13,686	13,686
Dividends paid to minority interest	6,194	5,876
Increase in working capital, net of cash and borrowings	17,146	–
	139,778	175,760
Sources of Cash		
Operations	123,671	62,244
Reduction in working capital, net of cash and borrowings	–	119,034
Other	5,876	(1,459)
	129,547	179,819
Increase (decrease) in net borrowings	10,231	(4,059)

Polysar Limited
Year ended December 31, 1984

1. Summary of Significant Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in Canada. The principles followed are also in conformity with the historical cost accounting standards of the International Accounting Standards Committee.

Principles of Consolidation

The accounts of subsidiaries are included on the purchase accounting basis. Companies which are not subsidiaries and over which the Company has significant influence, are accounted for by the equity method. Other investments are carried at cost or written-down value.

Foreign Currency Translation

The accounts of foreign operations which are deemed to be self-sustaining are translated using the current rate method. Under this method, all assets and liabilities are translated into Canadian dollars at the rates of exchange on the balance sheet date; revenues and expenses are translated at rates of exchange in effect during the year. Translation gains or losses arising from changes in exchange rates are deferred in a separate component of shareholders' equity until realized by a reduction in the Company's net investment in the foreign subsidiary.

Integrated foreign operations and subsidiaries operating in highly inflationary economies are translated using the temporal method, with translation gains or losses included in income. Under this method, current assets and liabilities, as well as long-term monetary assets and liabilities, are translated at the rates of exchange on the balance sheet date. Other balance sheet items are translated at the rates prevailing on the respective transaction dates. The accounting policy recognizes that long-term U.S. dollar denominated liabilities of the reporting entity are hedged effectively as repayment of such liabilities will be made from future U.S. dollar

revenue streams. Adjustments arising from translation of such hedged liabilities are deferred and deducted from long-term debt.

Inventories

Inventories are valued at the lower of FIFO (first-in, first-out) cost and net realizable value except for raw materials and supplies which are valued at the lower of FIFO cost and replacement cost.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided from the date assets are capable of commercial production, calculated on the straight-line method based on their estimated useful lives. Fixed asset additions, including related interest costs incurred during major plant construction, and renewals and betterments which extend the economic life of plant and equipment are capitalized. Maintenance and repairs are charged to income as incurred.

On disposal of fixed assets, the related costs and accumulated depreciation are removed from the accounts and any resultant gain or loss is included in income.

Pre-production expenses of major new projects are deferred and charged to income on the straight-line method over varying periods not exceeding ten years from commencement of commercial production.

Income Taxes

Income taxes are provided on the tax allocation basis. No provision has been made for income tax relief in respect of expenses recorded in the accounts where it is uncertain when, if ever, the relevant company would have sufficient taxable income to absorb such items for tax purposes.

On a continuing basis, some Polysar companies are incurring losses while others are realizing the tax benefits of previous losses. On a consolidated basis, these recurring tax benefits are not considered to be extraordinary in nature and accordingly, are reflected as reductions of current income taxes when realized.

Pensions

Pension costs are computed on the basis of accepted actuarial methods and include current service costs, valuation adjustments and the amortization of past service costs over periods of 15 and 30 years.

Net Income Per Common Share

Net income per common share is calculated using

the weighted average number of shares outstanding during the year after providing for all dividends on preferred shares.

Comparative Figures

Comparative prior year figures have been reclassified to conform with classifications adopted in 1984.

2. Change in Accounting Policy

In 1984, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants for foreign currency translation, as described in Note 1. This change has been applied prospectively from January 1, 1984; the previously reported consolidated balance sheet at December 31,

1983 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended have not been restated. Current year's earnings have not been materially affected by the change.

3. Inventories

	1984 (\$ thousands)	1983 (\$ thousands)
Raw materials	82,144	89,623
Finished products	139,584	112,872
Supplies	20,310	20,535
	242,038	223,030

4. Investment in Petrosar Limited

The Company owns 40.2% of the outstanding common shares of Petrosar Limited, a world-scale petrochemical refinery. The remaining equity is held by Du Pont Canada Inc. (20%), Union Carbide Canada Limited (20%) and the Company's parent, Canada Development Corporation (19.8%).

Under various agreements, the Company, Du Pont and Union Carbide (the Participants) are obligated to ensure the availability of any

additional funds which may be required to meet the retirement provisions of Petrosar's \$100 million term loan facility and the amounts due in respect of the dividend and redemption requirements attaching to Petrosar's \$300 million of Class "A" Preference Shares held by Canadian chartered banks. The Company's financing obligation is to provide 48% of these additional funds and other financial support.

Note 4 continued on page 30

Petrosar Limited	1984	1983
	(\$ thousands)	(\$ thousands)
Condensed Balance Sheet		
Current assets	383,873	312,297
Property, plant and equipment	606,527	628,711
Other assets	49,305	46,312
	1,039,705	987,320
Current liabilities	353,759	293,266
Long-term debt	80,000	100,000
Prepayments against future delivery	95,000	—
Deferred income taxes	28,992	57,399
Shareholders' equity	481,954	536,655
	1,039,705	987,320
Income Summary		
Sales	957,781	958,029
Net loss after provision for dividends on preference shares held by banks	(54,808)	(52,667)

The Participants have entered into long-term take or pay contracts with Petrosar to purchase all of the ethylene and a major portion of the other primary petrochemicals produced by Petrosar. During 1984, the Company's purchases from Petrosar amounted

to \$155.6 million (\$182.6 million in 1983). At December 31, 1984, the balance of the Company's monthly trade account owing to Petrosar was \$21.2 million (\$19.7 million in 1983).

5. Property, Plant and Equipment	1984	1983
	(\$ thousands)	(\$ thousands)
Land	20,172	19,782
Plant and equipment	1,146,687	1,168,518
Accumulated depreciation	(418,703)	(395,058)
	748,156	793,242

Depreciation of \$42.8 million was charged to operations in 1984 (\$33.3 million in 1983).

6. Deferred Charges and Other Assets	1984	1983
	(\$ thousands)	(\$ thousands)
Preproduction expenses	55,235	25,753
Prepayments against future deliveries from Petrosar	45,600	—
Long-term receivables	4,528	4,852
Other	25,067	21,730
	130,430	52,335

Amortization of \$11.1 million was charged to operations in 1984 (\$7.8 million in 1983).

7. Long-term Debt	1984 (\$ thousands)	1983 (\$ thousands)
<i>Canadian Dollars</i>		
7.5% sinking fund debentures, Series A, repayable 1985 through 1987	5,809	6,279
9% sinking fund debentures, Series B, repayable 1985 through 1993	25,276	27,401
Floating rate multi-currency revolving credit and term loan facility, currently bearing interest at 11.72%, repayable 1986 through 1992	273,590	311,158
Floating rate term loan, currently bearing interest at 11.15%, repayable 1986 through 1995	24,714	20,000
Floating rate term loan, currently bearing interest at 10.75%, due 1992	50,000	50,000
<i>United States Dollars</i>		
9.5% debentures, Series D, due 1986	64,787	50,613
Floating rate multi-currency term loan, currently bearing interest at 10%, due 1988	26,428	23,832
Floating rate term loans, currently bearing interest at an average rate of 10.49%, repayable 1985 through 1988	93,028	96,165
Notes and mortgages, currently bearing interest at an average rate of 6.71%, repayable 1985 through 2003	10,391	10,077
Floating rate multi-currency revolving credit and term loan facility, currently bearing interest at 15.04% repayable 1986 through 1992	47,570	36,551
<i>Other Currencies</i>		
Fixed and floating rate term loans, currently bearing interest at an average rate of 12.47%, repayable 1985 through 1999	59,908	39,116
Other non-current liabilities	13,998	10,830
	695,499	682,022
Long-term debt due within one year	26,077	21,791
Long-term debt at current exchange rates in 1984 (at historic rates in 1983)	669,422	660,231
Revenue hedge adjustments	(25,102)	—
	644,320	660,231

Sinking fund requirements and the long-term debt due in each of the next five fiscal years, expressed in millions, are as follows:

1985—\$26.1; 1986—\$137.3; 1987—\$76.0;
1988—\$111.2; 1989—\$63.4.

8. Minority Interest

	1984 (\$ thousands)	1983 (\$ thousands)
Minority interest in subsidiaries:		
Preferred Shares	85,000	85,000
Other	268	170
	85,268	85,170

The preferred shares issued by a subsidiary company are redeemable and have a cumulative floating rate dividend equal to 1.25% plus one-half of Canadian bank prime rate. Redemptions are required to be made in equal annual amounts from 1986 to 1988 inclusive. These shares are redeemable at the option of the holders; however the holders have agreed not to require redemption except in certain specified circumstances, including the occur-

rence of any event which, in the reasonable opinion of the holders of at least a majority of these shares, materially adversely affects the financial condition of certain subsidiaries or the Company. In the event of failure by the subsidiary company to redeem, the holders may require the Company to purchase all outstanding preferred shares for their aggregate stated value.

9. Capital Stock

	1984 (\$ thousands)	1983 (\$ thousands)
First Preferred Shares, no par value; issuable in series (authorized 10,000,000 shares); 15.5% cumulative, redeemable, non-voting shares Series A (issued and fully paid 1,769,675 shares)	44,241	44,241
Common Shares, no par value (authorized 30,000,000 shares; issued and fully paid 25,671,100 shares)	170,100	170,100
Total Capital Stock	214,341	214,341

During each month, the Company is obligated to purchase for cancellation 10,000 First Preferred Shares if, and to the extent, they are available for purchase at prices not exceeding \$25 per share. The Company is further obligated to repurchase the First Preferred Shares July 1, 1987 if, and to the extent, they are available for purchase at a price

of \$25 per share. First Preferred Shares are not redeemable prior to July 1, 1985, but thereafter, are redeemable at the option of the Company at a redemption price of \$27 per share reducing thereafter to \$25 per share.

There are no voting rights attached to preferred shares unless dividends are eight quarters in arrears.

10. Income Taxes

The provision for income taxes in the consolidated statement of income reflects an income tax rate

which differs from the Canadian corporate tax rate, for the following reasons:

	1984 (\$ thousands)	1983 (\$ thousands)
Net income before taxes, losses from investments and minority interest	84,144	25,074
Income taxes based on combined basic Canadian federal and provincial rate of 51%	42,913	12,788
Increase (decrease) in taxes resulting from:		
Foreign subsidiaries taxed at different rates	(31,841)	(23,236)
Effect of sale of scientific research tax credits	4,270	—
Other	2,658	748
Actual income tax provision (reduction)	18,000	(9,700)
Current income tax	12,472	3,513
Deferred income tax (reduction)	5,528	(13,213)
	18,000	(9,700)

11. Additional Information

Due from Parent

At December 31, 1984, the Company had a current receivable of \$12.4 million from its parent, Canada Development Corporation.

Geographic Segmented Information

The Company conducts its global operations through organizations in Canada, the United States and Europe. The sales of the respective geographic area segments are those supported by segment

identifiable assets and comprise sales both within the segment and into other market areas. Transfers between geographic segments are accounted for primarily at prices based on a combination of plant costs and market selling prices. Segment operating results should not be regarded as an absolute indication of segment comparative profitability. The Company is considered to operate in a single industry, petrochemicals, through its manufacture and sale of petrochemical products.

Geographic Segments Year ended December 31, 1984 (\$ thousands)	Canada	U.S.A.	Europe	Eliminations	Consolidated
Sales					
–3rd Party	352,495	573,676	482,235	–	1,408,406
–intersegment	346,941	23,813	28,925	(399,679)	–
Total	699,436	597,489	511,160	(399,679)	1,408,406
Operating income	56,628	6,061	105,343	(1,822)	166,210
Corporate expense					(12,076)
Interest expense–net					(69,990)
Loss from equity investments					(23,971)
Minority interest					(6,292)
Income taxes					(18,000)
Net income					35,881
Identifiable assets	900,870	206,459	231,204	(5,239)	1,333,294
Corporate assets					2,673
Investments					132,685
Total assets					1,468,652

Geographic Segments Year ended December 31, 1983 (\$ thousands)	Canada	U.S.A.	Europe	Eliminations	Consolidated
Sales					
–3rd Party	361,781	505,992	462,486	–	1,330,259
–intersegment	315,620	23,785	17,046	(356,451)	–
Total	677,401	529,777	479,532	(356,451)	1,330,259
Operating income	2,381	22,270	64,767	(595)	88,823
Corporate expense					(11,630)
Interest expense–net					(52,119)
Loss from equity investments					(20,398)
Minority interest					(5,683)
Income tax reduction					9,700
Net income					8,693
Identifiable assets	827,251	202,371	265,349	(3,678)	1,291,293
Corporate assets					3,030
Investments					158,662
Total assets					1,452,985

Polysar Limited Ten-Year Review

Operations (\$ millions)	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Sales and Other Income	1,416.2	1,336.9	1,328.7	1,347.4	1,180.6	1,066.9	807.3	609.4	488.9	420.9
Depreciation	42.8	33.3	41.7	35.5	29.2	25.6	25.7	26.9	18.9	20.1
Research and Development Expense	24.5	23.3	27.1	22.9	19.5	15.9	13.7	10.8	8.5	5.9
Interest	72.6	54.5	60.0	50.2	37.1	31.5	28.3	21.0	14.9	15.2
Income Taxes (Reduction)	18.0	(9.7)	(22.6)	10.5	26.3	32.7	11.5	7.5	4.2	3.2
Equity Income (Loss)	(24.0)	(20.4)	0.8	3.8	3.3	(5.9)	(8.2)	1.0	(0.5)	(0.3)
Minority Interest	6.3	5.7	7.9	8.7	7.0	6.7	5.2	0.7	—	—
Net Income (Loss)	35.9	8.7	(30.5)	22.0	73.4	74.0	18.5	14.4	7.5	1.6
Preferred Dividends	6.9	6.9	6.2	5.1	7.7	7.7	7.7	6.0	4.8	3.0
Cash Flow	123.7	62.2	1.7	69.2	130.0	141.0	64.1	41.6	28.0	23.2
Financial (\$ millions)										
Working Capital	148.8	156.2	190.3	232.4	270.0	250.5	200.8	99.1	77.8	91.2
—Ratio	1.5:1	1.5:1	1.6:1	1.5:1	1.9:1	1.9:1	2.0:1	1.5:1	1.5:1	1.8:1
Capital Spending	57.2	144.2	207.0	215.9	92.5	59.8	38.8	46.5	77.2	42.6
Total Assets	1,468.7	1,453.0	1,438.3	1,402.5	1,044.1	909.9	766.1	646.4	530.5	415.5
Long-term Debt	644.3	660.2	579.4	427.0	228.8	203.1	205.1	191.8	160.6	97.1
Minority Interest	85.3	85.2	85.4	85.4	86.0	86.2	90.6	1.6	0.6	0.7
Shareholders' Equity	398.0	387.3	392.3	391.3	380.7	317.9	262.3	255.9	211.4	197.8
Return on Equity (%)	9.1	2.2	(7.8)	5.7	21.0	25.5	7.1	6.2	3.7	0.9
Debt to Total Capitalization (%)	65.5	66.4	63.1	58.6	45.7	49.6	53.0	43.8	46.6	34.3
Per Common Share* (\$)										
Net Income (Loss)	1.13	0.07	(1.45)	0.74	3.13	3.32	0.54	0.42	0.14	(0.07)
Cash Flow	4.82	2.42	0.07	3.03	6.19	7.04	3.20	2.08	1.40	1.16
Dividends	0.27	0.27	0.26	0.27	0.13	2.27	0.21	0.19	0.20	0.06
Shareholders' Equity	13.78	13.36	13.56	14.56	13.12	10.13	7.86	7.54	7.31	7.39
Other (\$ millions)										
Salaries, Wages and Benefits	209.9	209.6	227.4	202.5	178.2	152.5	145.8	122.0	101.1	90.5
Number of Employees at Year-end	5,947	5,985	6,561	7,081	6,144	5,437	6,264	6,405	6,189	5,973

* All per common share amounts have been adjusted to reflect the ten-for-one stock split in 1979

Polysar Group Major Companies and Locations

Canada		
Polysar Limited	World Headquarters Manufacturing Division Resins Divisions	- Sarnia, Ontario ■▲● Sarnia, Ontario ■ Cambridge, Ontario ■ Montreal, Quebec
United States		
Polysar Incorporated	Head Office Latex Division Custom Compounding Resins Division Rubber Technical Centre	● Akron, Ohio ■▲● Chattanooga, Tennessee ■▲ Monaca, Pennsylvania ■● Akron, Ohio ■ Barberton, Ohio ■ East Brunswick, New Jersey ■▲● Leominster, Massachusetts ■ Copley, Ohio ▲ Stow, Ohio ■ Orange, Texas
Polysar Gulf Coast Inc.		
Europe		
Polysar International S.A.	Head Office	● Fribourg, Switzerland
Polysar Financial Services S.A.		Fribourg, Switzerland
Polysar Belgium N.V.		■ Antwerp, Belgium
Polysar Europa S.A.		● Antwerp, Belgium
Polysar Technical Centre N.V.		▲ Antwerp, Belgium
Polysar France S.A.		■▲ Strasbourg, France
Société Française Polysar		● Paris, France
Polysar Nederland B.V.		■▲ Arnhem, The Netherlands
Polysar Handelsmaatschappij B.V.		● Arnhem, The Netherlands
Polysar (UK) Limited		● Guildford, England
		● Manchester, England
Polysar (Deutschland) GmbH		Wiesbaden, Federal Republic of Germany
Polysar Italiana S.p.A.		● Milan, Italy
Polysar Espanola S.A.		● Barcelona, Spain
Polysar Skandinaviska A.B.		● Göteborg, Sweden
Bellaplast GmbH	Head Office	Wiesbaden, Federal Republic of Germany
		■● Alf
		■● Deizisau and
		■● Kleve, Federal Republic of Germany
Polysar Australia Pty. Ltd.		● Melbourne, Australia
Polysar do Brasil Produtos Quimicos Ltda.		● Sao Paulo, Brazil
Polysar International S.A.	Branch Offices	● Tokyo, Japan
		● Hong Kong
Hules Mexicanos S.A. (40%)		● Mexico City, Mexico
		■ Tampico, Mexico
Petrosar Limited (40.2%)		■● Sarnia, Ontario

- Manufacturing location
- ▲ R & D/Technology location
- Marketing/Sales locations

Corporate Directory

Board of Directors

P. Côté
Montreal, Quebec
Chairman of the Board,
Celanese Canada Inc.

W.A. Dimma¹
Toronto, Ontario
Chairman of the Board,
Polysar Limited
President and
Chief Executive
Officer,
Royal LePage Limited

R.S. Dudley¹
Sarnia, Ontario
President and
Chief Executive
Officer,
Polysar Limited

J.B. Hague²
Toronto, Ontario
Executive
Vice-President,
Canada Development
Corporation

H.A. Hampson¹
Toronto, Ontario
President and
Chief Executive
Officer
Canada Development
Corporation

D.C. Jones²
Calgary, Alberta
President,
Carlton Resource
Management Limited

G. Kraijenhoff
Arnhem,
The Netherlands
President,
Supervisory Council
AKZO N.V.

H.S. Ladd¹
Kingston, Ontario
Corporate Director

R.H. Marchessault
Mississauga, Ontario
Vice-President,
Xerox Canada Inc.

D.P. Owen
Toronto, Ontario
Vice-President,
Canada Development
Corporation

I.C. Rush
Sarnia, Ontario
Corporate Director

D.C.H. Stanley^{1 2}
Toronto, Ontario
Corporate Director

F.C. Wilkinson
Vancouver,
British Columbia
Chairman and
Chief Executive
Officer,
Wilkinson Company
Limited



From left: A. T. Cousins,
R. S. Dudley, D. E. Wood,
S. J. Goldenberg



From left: J. Beaton,
G. F. Bentley, M. Abbott

1. Member of the Executive
Committee
2. Member of the Audit
Committee

**Senior Corporate
Management**

R.S. Dudley
*President and
Chief Executive
Officer*

M. Abbott
*Vice-President,
Technology*

C. Ambridge
Vice-President

A.T. Cousins
*Vice-President,
Finance and
Administration*

S.J. Goldenberg
*Vice-President,
Personnel*

R.B. Grogan
Treasurer

J. Havlik
Corporate Secretary

D.E. Wood
*General Manager,
Corporate
Development*

**Senior Operations
Management**

G.F. Bentley
*Group Vice-President,
Rubber and Plastics*

J. Beaton
*Vice-President,
Latex and Styrenics*

P. Choquette
*Vice-President,
Rubber,
North and South
America*

D.A. Henderson
*Vice-President,
Rubber and Plastics,
Europe and Rest of
World*

R.G. Collins
*General Manager,
Formed Products
Europe*

T.C. Green
*General Manager
Custom Compounding*

G.M. Hicks
*General Manager
Latex, North and
South America*

H. Rech
*General Manager
Latex, Europe and
Rest of World*

W.D. Rion
*General Manager,
Styrenics*



*From left: P. Choquette,
G. M. Hicks, W. D. Rion*



*From left: H. Rech,
D. A. Henderson, R. G. Collins*

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